

CHAPTER 10

The High Cost of the Iraq War

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THE MOST IMPORTANT things in life, and life itself, are priceless. But that does not mean that issues involving the preservation of life (or a way of life), such as defense, should escape cool, hard economic analysis. They should not.

Shortly before the current Iraq war, when Bush administration economist Larry Lindsey suggested that the costs might range between \$100 billion and \$200 billion, other officials quickly demurred. For example, Office of Management and Budget Director Mitch Daniels put the number at \$60 billion. It is now clear that Lindsey's numbers were a gross underestimate (Bumiller 2002).

Concerned that the Bush administration might be misleading everyone about the Iraq war's costs, just as it had about Iraq's weapons of mass destruction and connection with al-Qaida, I teamed up with Linda Bilmes, a budget expert at Harvard, to examine the issue. Even as opponents of the war, we were staggered by what we found. Our estimates range from slightly less than a trillion dollars (our conservative estimate) to more than \$2 trillion (our moderate estimate). These and all subsequent figures can be found in Stiglitz and Bilmes (2006).

HOW THE COSTS ADD UP

Our analysis starts with the \$500 billion that the Congressional Budget Office (CBO) openly talks about, which is already ten times higher than what the administration said the war would cost. This estimate, though, falls far short of the full costs of the war because the reported numbers do not even include the full budgetary costs to the government, which are but a fraction of the costs to the economy as a whole.

For example, the Bush administration has been doing everything it can to hide the huge number of returning veterans who are severely wounded—over 12,000 so far, including roughly 20 percent with serious brain and head injuries. So it is no surprise that the CBO's figure of \$500 billion ignores the lifetime disability and health-care costs that the government will have to pay for years to come.

Nor does the administration want to face up to the military's recruiting and retention problems. The result is large reenlistment bonuses, improved benefits, and higher recruiting costs—up 20 percent just from 2003 to 2005. Moreover, the war causes extreme wear on equipment, some of which will have to be replaced.

These budgetary costs (exclusive of interest) amount to \$652 billion in our conservative estimate and \$799 billion in our moderate estimate. Arguably, since the government has not reined in other expenditures or increased taxes, the expenditures have been debt financed, and the interest costs on this debt add another \$98 billion (conservative) to \$385 billion (moderate) to the budgetary costs.

Of course, the brunt of the costs of injury and death is borne by soldiers and their families. But the military pays disability benefits that are markedly lower than the value of lost earnings. Similarly, payments for those who are killed amount to only \$500,000, which is far less than standard estimates of the lifetime economic cost of a death, sometimes referred to as the statistical value of a life (\$6.1 million to \$6.5 million).

But the costs don't stop there. The Bush administration once claimed that the Iraq war would be good for the economy, with one spokesperson even suggesting that it was the best way to ensure low oil prices. As in so many other ways, things have turned out differently: the oil companies are the big winners, while the American and global economies are losers. Being extremely conservative, we estimate the overall effect on the economy if only \$5 or \$10 of the increase in the price of oil per barrel is attributed to the war. Combined with assumptions about the length of price increases, assumed to be between five and ten years, this implies a cost to the American economy of \$125–300 billion.

At the same time, money spent on the war could have been spent elsewhere. We estimate that if a portion of that money had been allocated to domestic investment in roads, schools, and research, the American economy would have been stimulated more in the short run, and its growth would have been enhanced in the long run.

There are a number of other costs, some potentially quite large, although quantifying them is problematic. For instance, Americans pay some \$300 billion annually for the “option value” of military preparedness—being able to fight wherever needed. That Americans are willing to pay this suggests that the option value exceeds the costs. But there is little doubt that the option value has been greatly impaired and will likely remain so for several years.

In short, even our moderate estimate may significantly underestimate the cost of America's involvement in Iraq. And our estimate does not include any of the costs implied by the enormous loss of life and property in Iraq itself.

THE IMPLICATIONS

We do not attempt to explain whether the American people were deliberately misled regarding the war's costs or whether the Bush

administration's gross underestimate should be attributed to incompetence, as it vehemently argues is true in the case of weapons of mass destruction.

Nor do we attempt to assess whether there were more cost-effective ways of waging the war. Recent evidence that deaths and injuries would have been greatly reduced had better body armor been provided to troops suggests how short-run frugality can lead to long-run costs. Certainly, when a war's timing is a matter of choice, as in this case, inadequate preparation is even less justifiable.

But such considerations appear to be beyond the Bush administration's reckoning. Elaborate cost-benefit analyses of major projects have been standard practice in the Department of Defense and elsewhere in government for almost a half-century. During the planning stages, the Iraq war was expected to be an immense "project," yet it now appears that the initial analysis of its benefits was greatly flawed and that of its costs virtually absent.

One cannot help but wonder: were there alternative ways of spending a fraction of the war's \$1–2 trillion in costs that would have better strengthened security, boosted prosperity, and promoted democracy?

REFERENCES AND FURTHER READING

- Bumiller, Elisabeth. 2002. "Threats and Responses: The Cost: White House Cuts Estimate of Cost of War with Iraq." *New York Times*, December 31, A1.
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